



# California Initiative Program

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# CalPERS Overview

- Headquarters: Sacramento, California
- Retirement system for 1.2 million members
- \$150 billion in assets
- Four Primary Asset Classes:
  - *Global Public Equities*
  - *Global Fixed Income*
  - *Real Estate*
  - *Private Equity (AIM Program)*

# AIM Program Overview

- The AIM Program made its first investment in 1990
- Target asset allocation to AIM is currently 7%
- Well diversified portfolio with over 350 active investments
- Portfolio well positioned to benefit from current attractive buying opportunities
- The age of the portfolio is young (avg age of 3.9 years), but has generated strong performance (20.6% IRR on fully realized investments, \$4.6 billion of cash profits)

# Program Overview and Mission Statement

In May 2001, the CalPERS Investment Committee approved an allocation of **\$475 million** to the California Initiative Program. In total, 10 private equity firms will invest the capital for this new program.

***The California Initiative will invest in traditionally underserved markets primarily, but not exclusively, located in California. The objective is to discover and invest in opportunities that may have been bypassed or not reviewed by other sources of investment capital. These opportunities should offer attractive risk-adjusted returns commensurate with their asset class.***

# UNTAPPED ASSETS IN UNDERSERVED AREAS PROVIDE ATTRACTIVE INVESTMENT OPPORTUNITIES

## Urban/Inner city



- Strategic location near business centers, transportation, etc.
- Large, diverse labor pool
- Attractive local consumer market demand
- Government incentives
- Favorable access to real estate

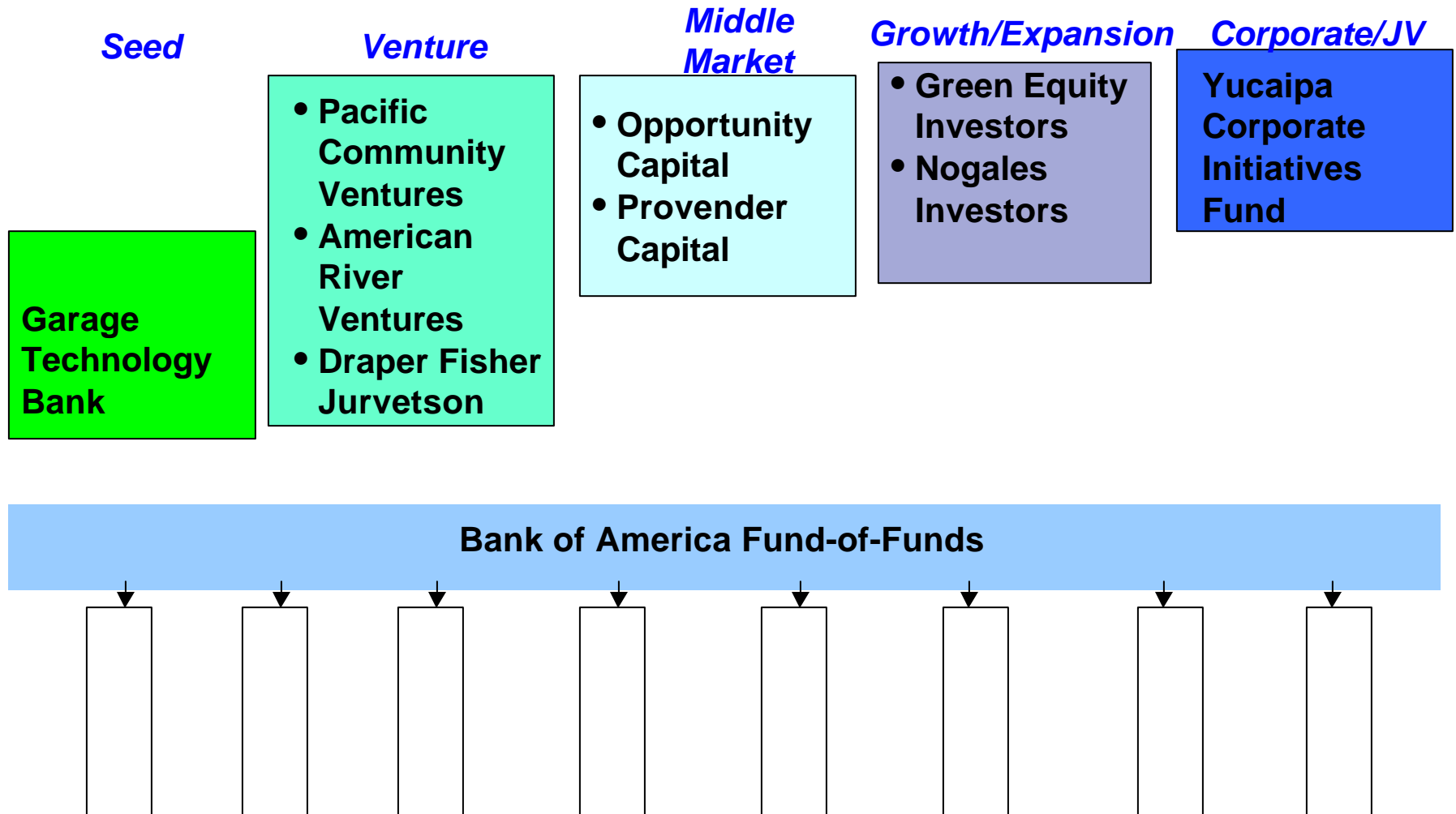
## Rural



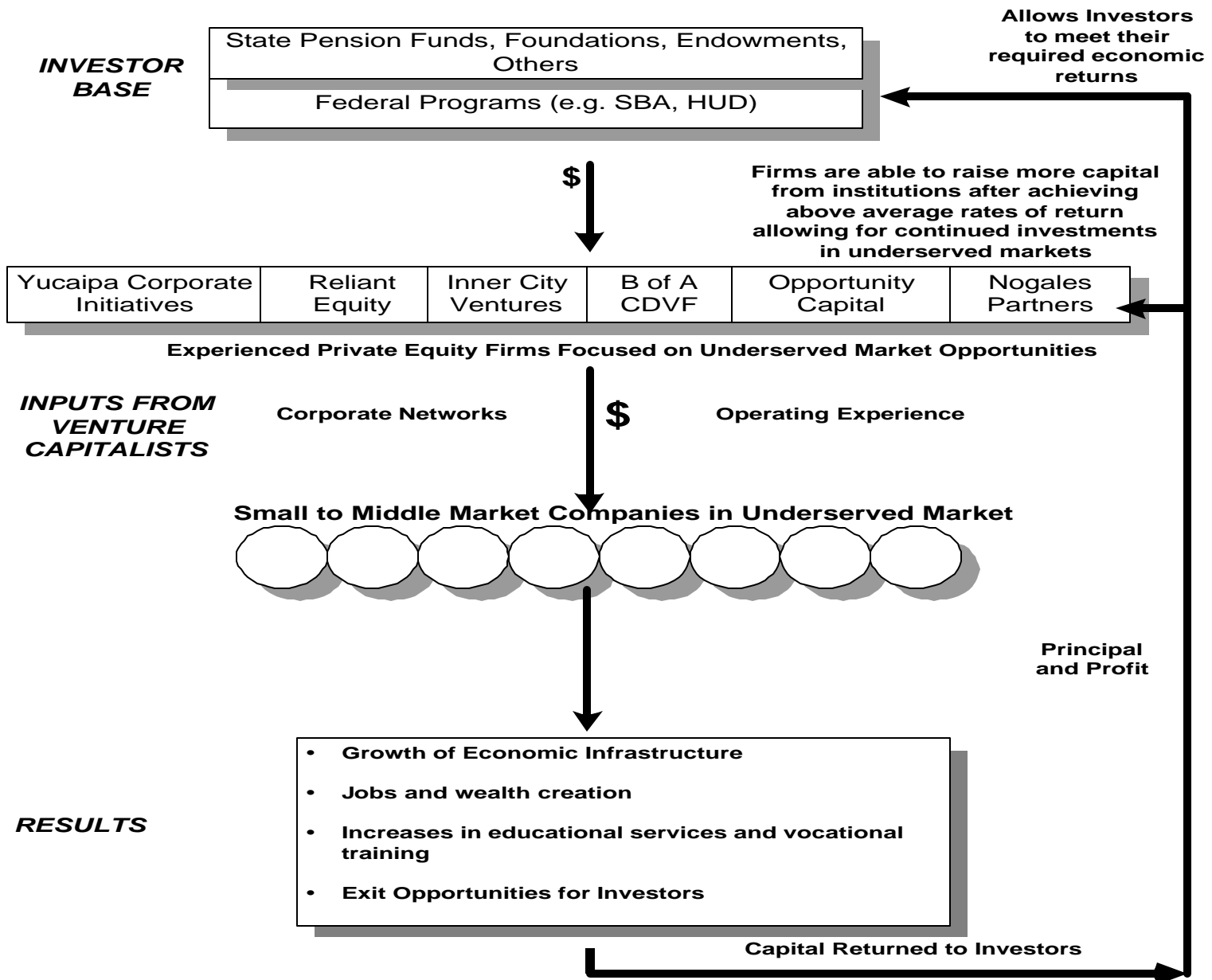
- Inexpensively priced land/office space
- Availability of full- and part-time, educated workers
- Lower cost of living environment
- Government incentives
- Recent technology and infrastructure developments that allow for convenient communication and access to information

# THE 10 SELECTED MANAGERS ARE DEPLOYING CAPITAL ACROSS THE SPECTRUM OF PRIVATE EQUITY

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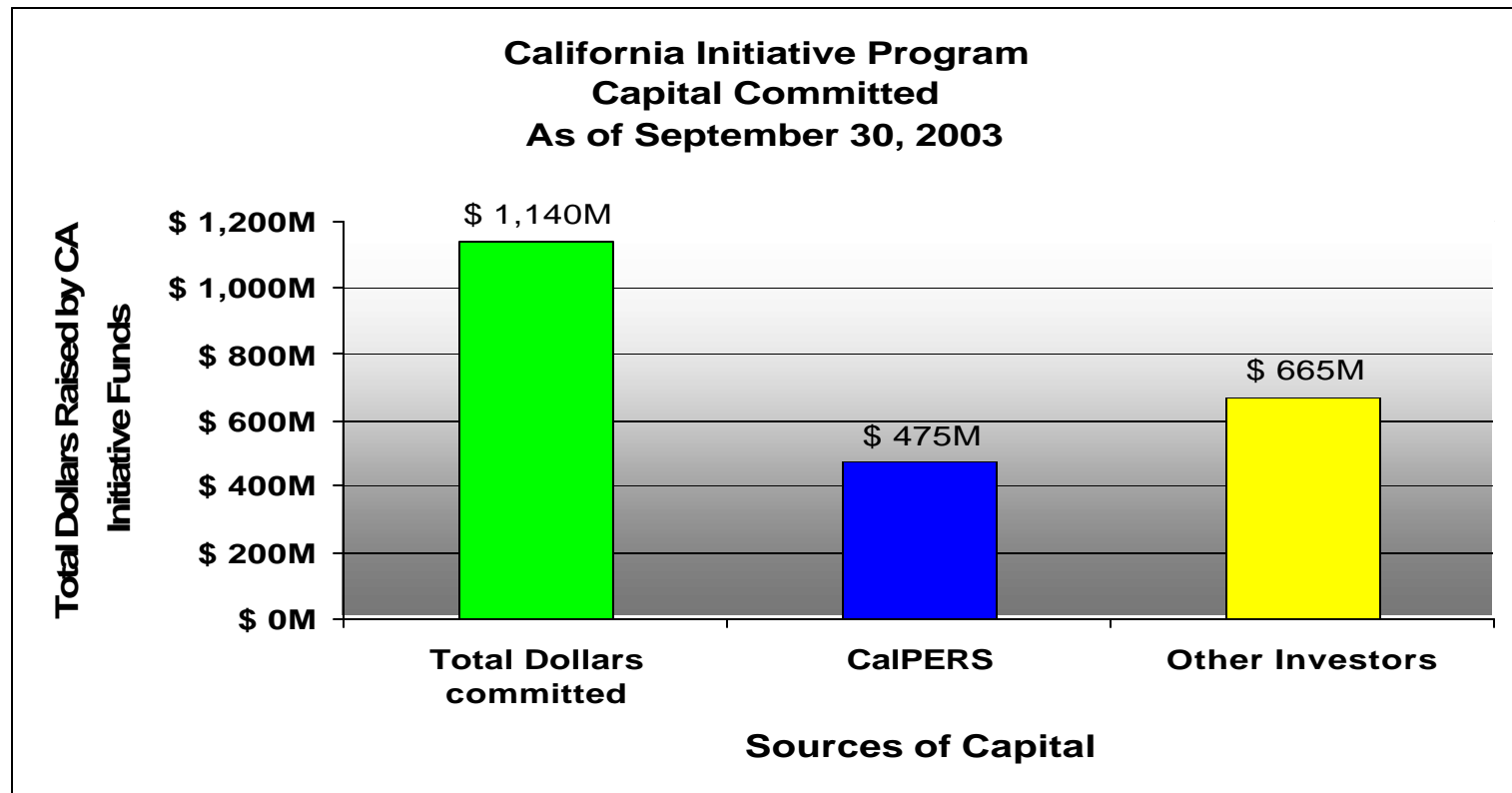
# The Deployment of Investment Capital in Underserved Markets





***In addition to the capital committed through the California Initiative, the selected fund managers have raised almost 150% more capital from investors other than CalPERS***

- **Over \$1.14 billion** has been committed to the 10 funds
- Support from the broader institutional market validates the investment thesis



# Underserved Market Criteria

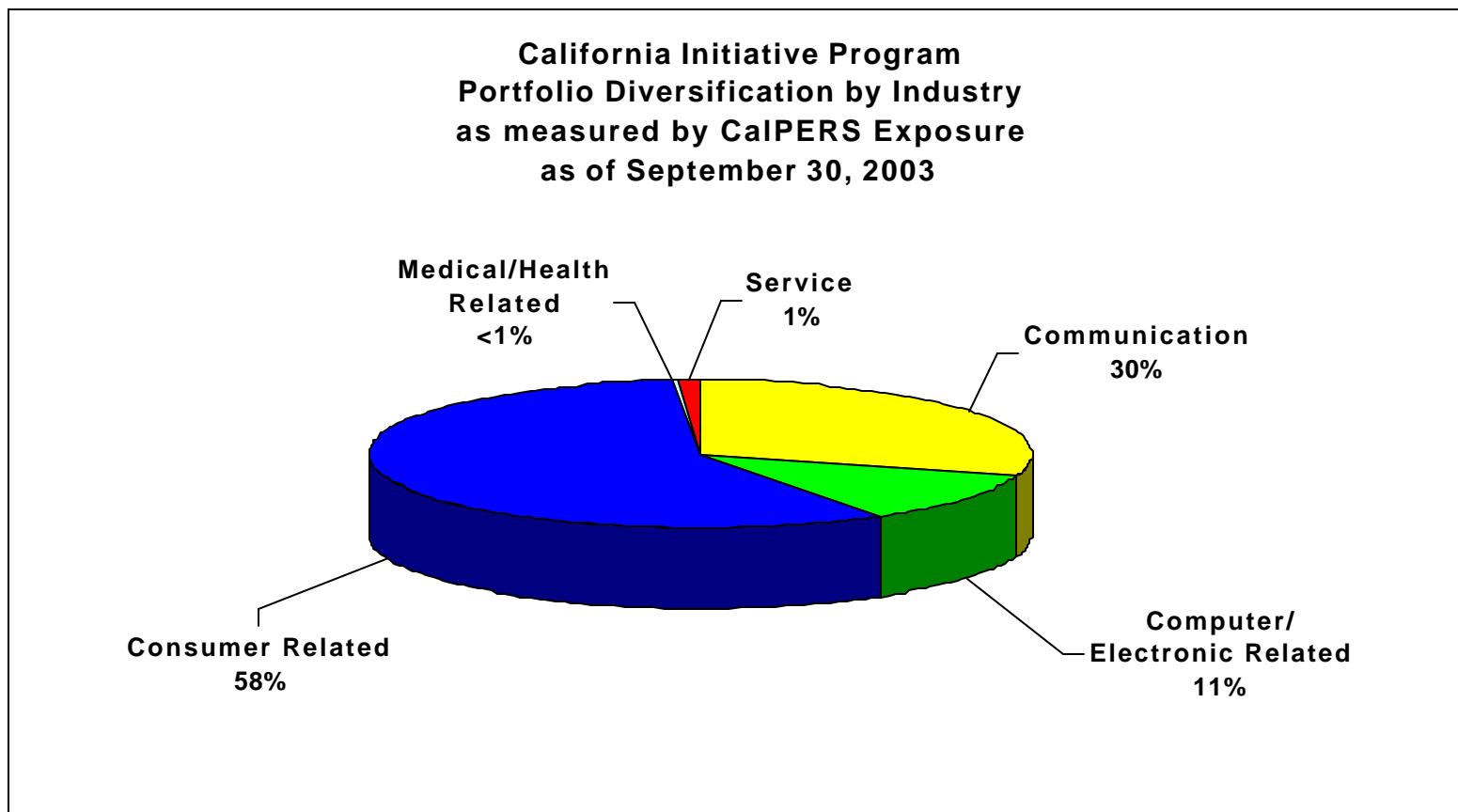
- **Is the Company located in a region with limited access to investment capital?**
- **Is there diversification of company ownership and management (either women or ethnic minority)?**
- **Does the company employs workers from Low-and-Moderate Income (“LMI”) area?**

# California Initiative Program Highlights

- Approximately \$180 million of equity capital has been invested in 39 businesses
- 100% of the companies within the California Initiative portfolio meet one or more of the “Underserved Market Criteria”
- Portfolio companies are located in areas throughout California including:
  - Urban markets such as San Diego, Los Angeles, and San Francisco
  - Rural markets such as the Inland Empire, the Central Valley, and the North Coast
- In addition, our fund-of-funds manager Bank of America has tentatively committed \$5 million to a fund located in Los Angeles that primarily invests in companies located in Southern California

# Diversification of the Portfolio

The portfolio contains consumer related, technology, communications and manufacturing companies. Over the next few years, we anticipate an increase in exposure to a variety of industry sectors in California.



# Summary

- Although the Program is in its early stages, the California Initiative has provided meaningful investment capital to California's underserved markets
- The fund managers continue to execute on their strategies and source deals through their network of entrepreneurs, corporations, intermediaries, the media, community groups, and other financial institutions
- CalPERS Staff continues to introduce entrepreneurs to the California Initiative managers, as well as other potential sources of capital, including community development banks and other Programs within the State of California



## California Initiative Program Investment Managers

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## The Banc of America California Community Venture Funds

### Private equity Fund of Funds

- Manage \$195 million “Fund of Funds” for Bank of America, the California Public Employees’ Retirement System, and the California State Teachers’ Retirement System

### Target investments in funds focused on underserved markets:

- Women or ethnic minority owned or managed companies
- Companies located in or employing residents of low and moderate income areas
- Companies located in urban or rural areas
- Primary focus on California

**Bank of America**



# Leonard Green & Partners, L.P.

Founded in 1989 and based in Los Angeles, California

Over \$3.7 billion under management

➤ LGP has completed 29 transactions with an aggregate purchase price of approximately \$16 billion

Disciplined value investors focusing on:

Superior investment performance\*: 39.3% IRR

Select Portfolio Companies:

- **Consumer-Oriented**
- **Strong Cash Flow**
- **Growth**
- **Market Leader**
- **Control**



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\* IRR calculated as of 12/31/02 before expenses and carried interest based upon actual timing of investment cash flows.



## NOGALES INVESTORS

### Experienced Private Equity Investment Firm

**Location:** Los Angeles, California

**Investment Size:** \$5 to \$25 million

**Successful history of investing in Underserved Markets**

**Unique combination of financial and operational expertise**

- Investment and finance experience combined with senior executive and corporate oversight experience in large corporations
- “Hands on” experience in operating and growing companies

### Investment Strategy

**Invest in growing, profitable businesses**

- Facilities located in low to moderate income areas
- Employee base consisting of low to moderate income workers
- Products and/or services targeted at low to moderate income consumers

### Target Market

**Revenues:** \$10 to \$125 million

**Management Team:** Experienced and highly-motivated

**Industry Preference:** Media, manufacturing, food processing, distribution, service and retail

**Exit Strategy:** Clear and defined path to exit within 3 to 5 years

**Businesses with high revenue growth potential**



## Yucaipa History

- 17 years of financial, transactional and operational expertise
- \$4.7 billion returned to investors on \$2.1-plus billion invested equity capital
- Successful investment track record in underserved communities with 2 headquarters, 300 stores, 14 manufacturing facilities and 54 distribution facilities located in these areas

## YCI Fund

Partnered with **CalPERS**, **CalSTERS** and **NYSCRF**, forming the \$575M Yucaipa Corporate Initiatives Fund (“YCIF”), to invest in companies that are located in, serve or employ persons from urban or rural underserved communities, or that are owned or managed by minorities or women

## YCI Goal

Create high return investments while advancing the flow of private equity into underserved communities

## YCI Strategy

- Partner with Fortune 500 companies
- Make large investments (\$25-\$50M)
- Capitalize on the competitive advantages of underserved communities

### Our Mission

Pacific Community Ventures provides resources and capital to businesses that have the potential to bring strong economic gains to low-income communities.

### Our Strategy

Provide capital and talented advisors to businesses with limited access to traditional sources of financing and high level management expertise

Leverage the assets of Pacific Community Ventures' business network, including corporate, community and pro bono partners, to strengthen PCV portfolio businesses

## OPPORTUNITY CAPITAL PARTNERS

Private equity fund – first fund formed in 1971.

\$135.0 million of capital under management.

Investment focus is on businesses in the telecommunications, information technology and healthcare sectors with a preference for companies that are owned or managed by ethnic minorities and women entrepreneurs.

Preferred investment range is \$2,000,000 to \$7,000,000 in mid and later stage companies.

Have invested more than \$30.0 million in over 10 portfolio companies primarily located in California.

Limited partners include CalPERS, Fairview Capital, Bank of America, Wells Fargo, Citigroup, Union Bank and Washington Mutual.